Green mountain coffee roasters

Background and History of GMCR and Keurig Green Mountain Coffee Roasters Inc. (GMCR) was founded in year 1981 as a small café and combined its operations with Keurig in 2006; it has its head office in Waterbury, Vermont. Presently, it is considered as the market leader in specialty coffee industry because it is offering top quality coffees, implementing innovative technology for brewing and fulfilling various socially responsible business practices. GMCR and Keurig had to master various skills to acquire top position in the market. GMCR is operating in coffee maker business and specialty coffee sector; it obtains, manufactures and then sells various kinds of coffee, teas, cocoa and other form of beverages in K-cup portion packs and coffee in conventional packaging style. It is believed that it is offering more than two hundred varieties of hot beverages. In addition to aforementioned products, GMCR is providing wide selection of whole beans, ground coffee in fractional packs and ground coffee selections in bags that can be easily used by customers of At-home (AH) and Away-from-Home (AFH) markets; AH and AFH has much more potential of growth as no coffee brand has been targeting these attractive markets.

GMCR is selling its products mainly in North America via club stores, convenience stores and club stores; to office coffee distributors; in hospitality industry companies and restaurants along with direct selling to consumers through its website. It is well-known in the market for manufacturing of brewing equipment and gourmet single-cup brewing systems. GMCR even sells AH single-cup brewers, coffee, tea, hot cocoa, accessories and tea in K-Cup portion packages and is offering other roasters that have been licensed to department stores, retailers and mass production merchandisers. The brand portfolio of GMCR comprise of Brûlerie Mont-Royal, Van Houtte, Orient Express and Brûlerie St. Denis along with license for Wolfgang Puck and Bigelow brands.

In 1998, Keurig was founded with an innovative concept that everyone should be able to make one cup of coffee at a time instead of a pot at a time; it is considered as the pioneer of single cup coffee maker and specialty coffees and teas. Recently, GMCR has done acquisition and mergers with various specialty coffee brewers; Keurig is licensing the patents for developed of single cup known as ‘ K-cup’ coffee packages that comprise of Starbucks Coffee and Dunkin Donuts. Currently, there are more than 5, 600 employees in the company and Mr. Lawrence J. Blanford is Chief Executive officer of GMCR. The financial highlights of the company are shown in the following figure (ttm stands for trailing twelve months, yoy stands for year over year and mrq stands for most recent quarter).

(“ Key Ratios of GMCR”, 2012)

SWOT Analysis

Strengths

Valuable strategic partnership with Keurig – It is GMCR’s biggest strength as incorporation of Keurig that is the leading manufacturer of single-cup brewing systems allowed it to enter specialty coffee market conveniently. It acquired Keurig License and all its licensees in 2006. It elevated its position from small coffee company to pioneer in specialty coffee market with K-Cup single serve brewing system of Keurig.

Top ranked single-cup brewer – Keurig is most frequently sold single-cup coffee brewing machine in USA and four top ranked sold brewers are products of Keurig.

Focus on coffee consumers – GMCR focuses on its valuable customers by offering them high quality coffee that is easy to make and can select from wide range of choices. It provides specialty coffee in simplified brewing machine that allows customers to choose from twenty-seven brands and about two hundred beverage varieties.

Young professionals comprise of new market – It has been able to expand into young professionals market with Keurig single server systems. These professionals love the idea of having one cup of coffee quickly and effortlessly. The best part of these systems is that quality of coffee remains consistent as it has measured amount of hot water with controlled temperature along with low pressure technology that brews ground coffee which is kept in paper filter to provide great cup of coffee every time.

Collaborations with well-known brands in market – GMCR has entered into collaborative agreements with various multi-channel distributors so that sales and awareness of GMCR and Keurig products can be increased. It is trying to reach as many consumers as possible by using various marketing avenues especially partnerships with leading brands such as Starbucks, Aramark, JC Penny’s, Cusinrt, Starbucks and Costco. All of these providers are providing wide range of promotional and merchandising support.

Well-organized expansion plan – It has expanded its operations in Southern California and Canada by acquisitions and is opening new manufacturing plants in Virginia and California to support its fast growing expansion plan.

Weaknesses

K-Cup pack patent expiration – In September 2012, K-Cup packs patent of GMCR will get expired and it can cause immense competition among generic competitors.

Dependency on one supplier causing sales concentration – Almost 84% of GMCR’s sales are generated via sales made from K-Cup packs and Keurig Brewers. It shows that company is heavily dependent on one product segment.

Business is seasonal – The first and fourth quarters of every year are high sales period as there is change in weather and holiday season is observed as well. In summer and spring moths, there is decline in coffee brewers and that is why GMCR is trying to do promotion of its new products that comprise of both hot and cold beverages.

Litigation charges – GMCR had to face an investigation session launched by SEC in September 2010 about its practices related to revenue recognition. During that time period, numerous multi class-action lawsuits were filed against GMCR; however, no substantial evidence has been yielded as yet.

Unstable partnerships with dominant brands – Although partnerships with big brands gives GMCR advantage in marketing area but it can be dangerous when GMCR is holding short end of deal on the basis of its size. For instance, Starbucks announced launching of its single server coffee brewer Verismo which is direct competitor of K-Cup; it caused GMCR to lose 16% of its stocks value.

Problems with structural designs – GMCR ahs three strategic business units i. e. GMCR Canada, Specialty Coffee Business and Keurig Business. It is difficult to integrate different cultures for sharing of resources, cutting down costs and creating synergy; as there are some internal problems within each unit such as Diedrich Coffee has troublesome financial position. Most of the manufacturing division is in China which can cause too much fluctuation in costs when there is any change in government policy of China; it has low control on stock and manufacturing cost.

Opportunities

Launch of Keurig Vue – Recently, GMCR launched Vue brewing machine which is a mid-high end brewer machine that offers various advanced features as compared to regular and contemporary Keurig machines. They have been developed with advanced technologies that help consumers in getting coffees according to their tastes and choices. With the help of Vue machine, consumers can have control on their drink’s strength, temperature that should be set for brewing, amount to be brewed and wide range of options to choose from for brewing other drinks like café beverages. GMCR can enter into affluent market and do promotion of its specialty coffee as a complement to this latest introduction i. e. Keurig Vue.

More awareness in the market via competitors – By partnering with other coffee manufacturers like Folgers and Caribou Coffee, GMCR can enhance its brand image in the market. With increase supply of K-Cup packs for competitors, GMCR is making its Keurig products more popular in the market.

Wide options for expansion in other regions – In the last couple of years, coffee consumption has been increased in Asia, Europe and Brazil so by targeting and influencing more coffee drinkers in these countries, GMCR can gain competitive advantage by entering in these markets before its competitors identify this opportunity.

Threats

Decline in coffee consumption – In USA, coffee consumption has declined significantly and it accounts of only 20% of coffee consumption worldwide. Europe and Asia are the countries that have potential of targeting coffee drinkers.

High competition – Majority of companies are entering specialty coffee industry and since there are low barriers to entry, there is huge chance that number of competitors will get double in next five years.

Price Volatility – The price of commodities is unstable which can be threatening for GMCR as it is trying to maintain its low cost production advantage. The coffees suppliers can even change their prices and may start charging high rates considering the growth in this industry. There is high uncertainty for coffee supplier contracts in future that can cause uncertainty in future profits.

Heavy reliance on specialty coffee farms – GMCR relies on these farms to get best coffee beans for creating perfect coffee blend. If crop yield is poor or weather conditions are unfavorable, then farming of specialty coffee beans will be adversely affected which would create problem for GMCR as it will have low level of inventory and will be unable to fulfill customer orders on time.

Porter's Five Forces Model

According to Dess, Lumpkin and Eisner (2012), Porter's five forces model is important for assessing the position of a company in its industry.

Threat of Substitutes

The threat of substitutes for GMCR is of medium level; US is among those countries that have highest coffee consumption consumers. There are various products such as soda, energy drinks and other beverages that can be used as substitutes but their consumption rate is lower than that of coffee. More than 54% of Americans aged above 18 years, have a cup of coffee daily and number of coffee cups per day can go to ten cups as well.

Threat of new entrants

There is medium level of threat of new entrants as K-Cup pack patent expiration will attract more competition from those coffee manufacturers who are not present in single server brewing market. Most of these manufacturers have either same or large sized distribution channels which could be exploited to increase market share fastly. However, new entrants will have some difficulty in creating networks for distributions and even licensing partnerships.

Rivalry among competitors

There is high rivalry among competitors as there are numerous direct and indirect competitors present in the market. GMCR’s patent on K-Cup packs is expiring on September 2012 which implies that generic brands or competitors will have immense opportunities for manufacturing at lower prices their own labeled K-Cup packs.

Power of buyers

Currently, power of buyers is medium. In terms of pricing, GMCR has been able to control it because of K-Cup pack patent but after its expiration, consumers will be able to select from various options other than products of GMCR.

Power of suppliers

The supplier power is high as there is heavy reliance on specialty coffee farms for GMCR’s product line; suppliers charge high prices. In case of shortages of coffee beans due to drastic weather conditions, GMCR reputation can get hurt and it can impact their bottom line severely.

Strategy Used

According to GMCR’s management team, its strategy is known as Razor Blade Strategy and it has taken its inspiration from P&G’s strategy of selling razor blades. GMCR has ensured that Keurig machines sold by them are reasonably priced but they charge higher price of all K-Cups which work only with Keurig machine. The primary reason for offering expensive products in this category is that coffee costs about $2. 5 per pound and customers are paying 35 dollars a pound for the amount they are getting in every K-Cup.

The purpose of the strategy is to create awareness about brewing machine that will ensure that consumers keep on buying unlimited K-Cups that are exclusively sold by GMCR only till September 2012.

GMCR has been successful in creating awareness about exclusively high quality products and has even increased customer base by capturing loyal K-Cup market. It has even entered into partnerships with Starbucks Coffee and Dunkin Donuts to turn their customers into their loyal people. Considering Porter's generic strategies, GMCR is following differentiation strategy as it is focusing on narrow market with high quality products; it has focused on wholesale distribution channel within the gourmet coffee niche that comprises of unique buyers.

Issues and challenges faced by the company

The main issues and challenges faced by GMCR are as follows:

There is shift in coffee consumption industry as there is decline in number of coffee consumers in USA and increase in coffee drinkers in Asia and Europe.

K-Cup pack patent of GMCR is getting expired which will make entrance of generic competitors easier and consumers will have more options for single cup brewing system at lower prices.

Since GMCR is relying on specialty farms for its coffee beans, it will have to look for other alternatives when crop yield is lower. When customer orders are not fulfilled, dissatisfied customers create negative reputation in the market and it affects their sales significantly.

There is lack of synergy in three Strategic Business Units (SBU) which is posing many problems for GMCR to smoothen their functioning. Every SBU has its own set of problems and decentralization is impacting their business operations significantly.

Course of action recommended

In order to handle the problems that are encountered by GMCR, it will have to take steps for vertical integration that will help it in controlling fluctuations in commodity prices. It can do integration with manufacturing companies that will allow GMCR to charge prices equivalent to or above than those offered by Keurig. It should continue with its innovation strategy by introducing new products in the market. With the help of integration, it will be able to lower its transaction costs and bear its efficiency cost as well. The structural design needs to be revamped that will ensure that SBUs are interlinked and there is centralized approach; it is important to create synergy so that resources can be efficiently allocated and utilized. The manufacturing facilities have to be developed in other regions besides China so that it has alternatives available for modifying production of its products. Hence, it will have to make changes in its strategies to make sure that it is able to capture its desired market share.

Opinion

GMCR and Keurig coffee case study helped in understanding the importance of strategy development along with factors that need to be taken into account when designing the strategy. It also highlighted the problems being faced by the company along with competitiveness in business environment. Some environmental issues were raised by its operation but they were properly addressed by its management team. When businesses don’t function properly, they have to pay penalties for doing misconduct. The case study highlighted the importance of creating partnerships with competitors along with following right strategy for acquisition and mergers so that these decisions are beneficial for company’s successive progression in the market.